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Before the
Federal Communications Commission
Washington, D.C. 20554

FCC 92-537

In the Matter of Simplification of the Depreciation Prescription Process	CC Docket No. 92-296

The Utah Division of Public Utilities (Division) hereby submits comments on the proposals and tentative conclusions set forth by the Federal Communications Commission (FCC) in regards to simplification of the Depreciation Prescription process.

Since Utah is still a rate of return/rate base regulation state, we believe there is no need to simplify the depreciation process at this time. The FCC appears to be less concerned because of price cap regulation and the endogenous treatment of depreciation expense.

The FCC has primarily controlled the depreciation process by establishing the guidelines to be followed in a depreciation rate study. The states have used the same studies in evaluating the reasonableness of proposed rate changes for intrastate operations. If the FCC simplifies the process, it will also force the states to do likewise. The states will find it difficult, if not impossible, to require the carriers to file more comprehensive studies.

Depreciation is the largest component of telephone utility expense. Its calculation is not an exact science. Depending on the degree of simplification, the process will become even less precise. This will tend to weaken the basic premise of depreciation, which is the matching of expense to capital consumption.

The claimed $35-50 million of annual costs to determine depreciation rates is grossly orverstated and unsupportable. The analysis functions of investment and depreciation accounting will be required regardless of the approved method of determining depreciation rates. The triennial expense of summarizing past accounting results and developing justifications for future technology deployment changes for regulatory purposes is relatively

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small. No additional work force or other resources, over and above that required to perform ongoing financial functions, are employed for the triennial reviews. The minor added expenses involve some travel, board, lodging, presentation materials, etc. In US West, the same work force handles several state jurisdictions and the support materials created for presentations are generally the same for most states. None of the 12 independent telephone companies in Utah have incurred any added regulatory costs or expenses for determining intrastate or interstate depreciation rates during the past six years.

None of the regulated companies have presented evidence that past rates have created financial harm, jeopardized technology deployments, or created competitive handicaps.

The Division hereby submits its comments and recommendation relating to the four proposed options in the Notice of Proposed Rulemaking (CC Docket No. 92-296). If the FCC eventually moves forward with simplification of the depreciation process, the Basic Factors Range Option would be the most acceptable to the Division assuming implementation on a phase-in/experimental basis.

A. The Basic Factors Range Option

- Industry-wide data should be used initially to determine the ranges. The Division is unable to comment on the appropriate width of a range.

- Seperate basic factor ranges should be established for the Local Exchange Carriers and the Interexchange Carriers.

- The basic factor ranges should initially be established only for the more stable accounts (buildings, motor vehicles, etc.). This will provide some experience with ranges before establishing them for all accounts. The more complex accounts, that are subject to changing technology, should remain under the current FCC study guidelines at this time.

- If implemented, participation should be optional.

- If a carrier's basic factors initially fall outside established ranges, no adjustments should occur until the next scheduled depreciation prescription. At that time, the carrier's basic factors should be moved to the nearest range boundary and then adjusted, if necessary on some allowed percentage basis.

- The initial factor ranges should be implemented at the time a carrier is scheduled for its normal depreciation prescription.

- The carrier should not be allowed to select any basic factor within the established range. The basic factors underlying the carrier's prescribed depreciation rates would determine its initial position in the range. Changes to basic factors should be on a percentage basis and should only occur at the time a carrier is scheduled for its normal depreciation prescription. To further simplify the process it may be worthwhile to eliminate Future Net Salvage (FNS) from the depreciation rate setting process. FNS could be expensed or credited as it occurs rather than attempting to establish ranges with allowed percentage changes. FNS is generally not a significant item in the determination of depreciation rates.

- The current practice of reviewing basic factors once every three years could be extended to a longer period. The Division is not sure if this extended review time will work satisfactorily with the more complex accounts that may be subject to rapid technology changes.

- The future update of established ranges for basic factors should be done on an industry-wide basis. This will require carriers to maintain continuing property records and other essential information. The need to track and maintain information for future industry-wide updates of basic factor ranges will probably result in minimal savings to the carriers.

- The Division questions the need for the continued use of Equal Life Group (ELG). The FCC has allowed the use of ELG rates only when the data necessary to determine the survivor curve shape is available for a specific account of an individual carrier. The use of industry-wide data would seem to make the further refinement of subdividing vintage groups into equal life groups of questionable value.

B. The Depreciation Rate Range Option

This option is less viable than the previously discussed Basic Factors Range Option. It represents further movement away from the basic depreciation principle of matching expense to capital consumption. This option ignores the formula approach which uses basic factors to determine depreciation rates.

Since the FCC has requested comments on several issues that are the common to both "range" options, the Division's comments on the Basic Factors Option also apply to the Rate Option.

Since this rate range approach does not have a true-up mechansim for any past over or under depreciation accruals, accumulated depreciation imbalances could result. The Division recommends that shareholders, rather than ratepayers, should be at risk for such imbalances if this option is adopted.

C. The Depreciation Schedule Option

This option is less viable than both range options. It would provide the greatest deviation from the depreciation principle of matching expense to capital consumption. The Division does not recommend adoption of the Depreciation Schedule Option.

D. The Price Cap Carrier Option

This option leaves the choice of depreciation rates totally up to the carriers. The carriers would not be required to provide any supporting data. Formal comments submitted in response to the Public Notice would be relied upon by the FCC to determine the reasonableness of the proposed rate changes. Without any information, it would be very difficult for the states, or any other interested party, to file meaningful comments. The perceived need for greater flexibility by the carrier, in determining depreciation rates, is a result of price cap regulation with its endogenous treatment of depreciation expense changes. Most states do not regulate under a price cap philosophy. The Division does not recommend adoption of the Price Cap Carrier Option.

SUMMARY

The Division is opposed to simplification of the depreciation process at this time. However, in the event the FCC moves forward with simplification, the Basic Factors Range Option would be the most acceptable to the Division. This assumes a phase-in/experimental approach. Of the four options presented, the Division believes that the Basic Factors Range Option would provide the best matching of expense to capital consumption.

DATED this 26th day of February, 1993.

Respectfully submitted,

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